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TAGS: PGOV PREL UP

SUBJECT: PM BACKER ACCUSED OF MONEY LAUNDERING, VOTE BUYING

Classified By: Ambassador John Tefft for reasons 1.4(b,d)

¶1. (C) In a meeting with the Ambassador on December 29, Ukrainian Security Services (SBU) head Valentyn Nalyvaychenko accused Prime Minister Tymoshenko's largest financial backer, businessman and MP Konstantyn Zhevago, of running a large money laundering operation and financing a vote buying scheme for the January 17 presidential election. Nalyvaychenko said that the SBU had discovered and shut down a 500 million UAH (approximately 62.5m USD) per-year money laundering operation based in the Eastern Ukrainian city of Donetsk that was being run by Zhevago's Finance and Credit Bank. He claimed that Zhevago has been involved in financial fraud since at least ¶2001. SBU spokesperson Marina Ostapenko in a press conference on December 9 said that the SBU had discovered a money laundering operation by an unnamed "large Ukrainian bank and Ukrainian businessman" and that indictments had been forwarded to the Prosecutor General's office for prosecution.

¶2. (C) Nalyvaychenko also told the Ambassador that Zhevago was involved in a vote buying scheme on behalf of PM Tymoshenko in Donetsk and Luhansk oblasts. He said that the SBU stopped a Finance and Credit Bank vehicle carrying 500,000 UAH (approximately 62,500 USD) and the official seals for 300 fictitious companies based in the Donetsk region. Nalyvaychenko said that money was funneled through local banks to the accounts of fake companies, where it is withdrawn and used to bribe voters and local officials to support PM Tymoshenko's presidential campaign. He said that it was difficult to prevent vote buying, but that the SBU was closely watching regional banks for suspicious inflows of money that could be used to facilitate the practice.

COMMENT:

¶3. (C) Nalyvaychenko's intention to pursue criminal charges against Zhevago could be a sign that the SBU chairman is serious about combating corruption or could be motivated purely by politics. Convincing the Rada to lift Zhevago's parliamentary immunity to allow the case to move forward, however, will be a significant hurdle. The Rada has only lifted immunity in the past for extreme cases, such as the case of Tymoshenko bloc MP Lozinskiy accused last year of murdering a man in front of a group of witnesses. Zhevago's role as Tymoshenko's largest financial backer does raise red flags that the charges could be an effort to cut off her financial resources or embarrass her before the election, but neither the SBU nor the Prosecutor General's office has publicly accused Zhevago by name.

TEFFT